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INDUSTRIAL DEVELOPMENT AND COOPERATION ACTIVITIES

Executive summary of the Report of the Global Forum on Industry New Delhi, India, 16-18 October 1995*

Prepared by the Secretariat

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Introduction

1. The Global Forum on Industry: Perspectives for 2000 and Beyond, meeting at New Delhi, India, from 16 to 18 October 1995 to consider the long-term impact of current economic and technological trends on world industry, and the policy and strategy implications for Governments and industry, reaffirmed the continuing need for industrial development as a central element of international community concern. The Forum adopted conclusions and made recommendations in eight areas, as set out below. The report of the Forum (ID/WG.542/32(SPEC.)), as well as the documents presented, are available with the Secretariat.

I. FUTURE OF WORLD INDUSTRY

2. The Forum considered that rapid industrialization will continue to be the main engine of growth in developing countries and transition economies for several decades to come. Throughout the coming decades, industrialization will remain a unique solution and a strategic path for long-term socio-economic development of developing countries and a key objective of global development. These years will be a period of increasing interdependence of countries and markets. Accelerated industrialization of developing countries must remain an essential prerequisite of socio-economic transformation, and a crucial tool for reducing unemployment, poverty, social tensions and potential conflict in the global economy. Attempts to belittle the importance of industrialization in developing countries contradict common efforts towards global interdependence, partnerships, solidarity and prosperity.

3. In developing countries as a whole, manufacturing value added (MVA) is expected to grow at twice the rate of world gross domestic product (GDP), by almost 7 per cent annually. This would raise their share in world MVA to over 30 per cent in 2005. Developing countries will also raise their share of world manufactured exports from 24 per cent in 1995 to over 35 per cent in 2005. However, nearly all the increased growth will be accounted for by dynamic countries in East and South Asia.

4. This region, as well as some countries in Latin America, can anticipate continuous high growth rates. In the majority of developing countries, however, the pace of industrial growth is expected to be unsatisfactory. The Forum was particularly concerned that there may be only marginal growth in sub-Saharan Africa and the least developed countries, where economic stagnation and often deterioration has prevailed during the last two decades. Unless major economic and industrial transformation can be brought about, many of the poor countries of today may be as poor or poorer at the end of the next decade. The Forum therefore underlined the importance of industrial growth, diversification and value added activities as the principal means of creating new jobs and incomes in less developed regions. Special attention and a separate approach are needed to accelerate industrial growth in such countries. The process of industrialization requires that the transition phase from low to modern technology be properly managed in order to avoid increasing unemployment and widening income gaps.

5. The Forum considered it imperative that a new dynamic approach be adopted to accelerate the pace of industrialization in developing countries and transition economies, within a framework of private sector development and increased export orientation. Market-friendly interventions in the form of policies and institutional support will be necessary to correct market failures and shortcomings and enhance competitive advantages. Such support functions must be provided at the local, state and international level.

6. The future growth of the world economy, and of manufacturing and services, will be largely skill-based. To reduce their initial handicaps, developing countries will need to concentrate on the development of human resources, new technological skills and innovative capability. At the enterprise level these aspects will be essential for competitiveness. Availability of skilled human resources and a supportive social infrastructure will be key determinants of an enterprise's ability to compete and thrive. Human resources development programmes suited to their needs have to be undertaken by developing countries, with proper support from international bodies and private investors.

7. Developing countries' industrial growth will also need to be supported by suitable physical infrastructure and by maintaining the pace of economic liberalization, deregulation and open trade complemented by actions to assist countries to face the challenges of such transition and promote sustainable industrial development.

II. GLOBALIZATION AND INDUSTRIAL PARTNERSHIPS

8. With the internationalization of communications and markets, the globalization of industrial activities will increase significantly during the next decade. Firms in developing countries must adjust to the realities of a global market for most products and services, and the need to compete in a global arena. While the liberalization of trade will make it easier for them to operate internationally, they will have to develop the necessary competitiveness, access to additional investment resources, and the technological and market linkages required to achieve rapidly changing products and services of high quality.

9. Developing countries and economies in transition will need to be integrated into global production and marketing more effectively than permitted in their current relations with global corporations. Increases in local savings and investment rates are essential. However, foreign direct investment, especially through the subsidiaries and affiliates of large corporations, will remain crucial to some countries and branches of industry; for example, countries with large potential markets and supplies of scarce raw material or cheap semi-skilled labour. Foreign direct investment will continue to be needed to cover investment gaps and to ensure the associated inward flows of technology. Increasingly, however, foreign direct investment will take place in the context of the provisions of the Uruguay Round agreements on trade-related investment measures (TRIMs) and trade-related aspects of intellectual property rights (TRIPs).

10. Alternative forms of participation must be developed for and by countries where, despite policy liberalization, foreign direct investment is likely to remain inadequate during the next decade, i.e. countries with limited internal markets, no major comparative advantages or economic policies preventing the full exploitation of comparative advantages. These alternative forms include joint ventures with minority foreign holdings, non-affiliate technology licensing, use of trade marks, technical and research services and other contractual arrangements. Such forms of participation may be preferred by local industrial enterprises and groups in countries with well-developed private sector entities and capital markets. There will also be considerable potential for the division of selected production functions in such industries as capital goods and consumer durables such as automobiles and electronic products. Because of the rising cost of industrial research, there will also be considerable potential for contractual industrial research in developing countries and transition economies.

11. National firms must be adequately developed and have the necessary financial and technological support to globalize their activities for specific product groups or industry-related services in particular fields. These local enterprises must be able to take the initiative in locating suitable foreign partners and to determine the pattern of foreign participation. Governments should be able to promote such partnerships through the development of information systems. National firms must also be able to determine, on the basis of comparative advantage, which functions would be best undertaken abroad, and which at home, and whether research and innovative capability should be developed internally or through external partnerships and linkages.

12. In some countries where local entrepreneurship has been lacking in the past, a new class of entrepreneurs must be created for the future. Institutional support should be provided to local enterprises in areas of specialized skill development, managerial and organizational change and technology absorption and adaptation. Institutional facilities should provide for standardization, quality certification and applied research, including research in areas involving generic technologies.

13. In countries with a developed private sector and adequate facilities for finance and export marketing, local enterprises will increasingly seek licensing and strategic alliances rather than foreign direct investment. This, too, will require extensive institutional support, particularly for the development of risk-taking entrepreneurs and partnerships with a global market orientation.

III. INDUSTRIAL IMPLICATIONS OF LIBERALIZED TRADE AND INVESTMENT

14. The Uruguay Round agreements on global trade liberalization will have far-reaching effects on industrialization in all trading nations. They will both liberalize and expand global trade, and increase global interdependence. The principal gains will accrue to developed economies comprising the major trading nations and a small number of developing countries. The Forum considered that there will be considerable potential for semi-industrialized developing countries to increase their share of world trade. In the short run, however, the impact of the agreements on many developing countries may be negative because they will lose their preferential trading arrangements. Careful assessment is required at the country level of the full implications of the agreements for industry and the necessary adjustments, which will be substantial in industrial strategies and enterprise-level restructuring.

15. The impact of the performance requirements in the agreement on TRIMs and the ensuing constraints will also be significant for the more advanced developing countries, resulting, for example, in higher import bills for sub-assemblies and spares. The agreement on TRIPs will impact on the transfer of technology to developing countries, especially in pharmaceuticals and biotechnology.

16. The Forum considered that global trade liberalization will particularly challenge the African, Caribbean and Pacific States whose trade preferences will be progressively eroded. To compete in open markets, they will need to raise the efficiency and competitiveness of their manufacturing sector, particularly their small and medium enterprises (SMEs). They will also need to adopt a more export-led strategy and promote effective regional and subregional cooperation in order to enlarge

the size of their markets and they will require structured access to inputs and technology. This will require close interaction between the private sector and the Government and, in many cases, support from international organizations.

17. Least-developed and African, Caribbean and Pacific countries, often with weak industrial bases, must improve their capacity to identify and support sectors, subsectors and products with export potential. Their firms will need to establish production and marketing capabilities in new markets. For this, policy and institutional support will be needed to improve productivity, quality and standards, marketing, human resource development, information and access to finance.

18. All developing countries should be sensitized to the implications of the Uruguay Round agreements and the environmental, health, safety and technical standards essential for obtaining and maintaining their access to global markets.

19. Regional and subregional cooperation will be necessary to enhance market size. Regional agreements need not be inconsistent with global trade liberalization, but they should not develop into new forms of protectionism within each region. In particular, the anti-dumping provisions in the agreements should not lead to protectionist abuse.

IV. CRUCIAL ROLE FOR TECHNOLOGY

20. The Forum reviewed technological trends for the next decade and highlighted technology as a core competence necessary for achieving and maintaining competitiveness. It must be based on integrated development efforts and capabilities that can be used in different market conditions. Such competitiveness is necessary in both internal and external markets.

21. Concepts and approaches relating to technology development and transfer must be viewed in a new context encompassing rapid changes in technology itself, economic and industrial developments, new forms of enterprise-level cooperation and the changed intellectual property regime. Technology strategies range from absorption and improvement of traditional technologies to technology-intensive manufacturing based on recent advances in science and technology.

22. The Forum underlined the increasing importance of new generic technologies such as informatics, biotechnology and new materials, which are creating new industries and offer scope for improvements in a wide variety of sectors. Based on science, generic technologies call for long-term capacity-building in both science and technology. Full recognition of the technology factor in industrial development and competitiveness strategies, often overshadowed by budgetary and financial constraints, is an urgent necessity.

23. The Forum recommended that all countries, particularly developing countries, formulate and implement programmes for technological competitiveness. Such programmes will vary according to national conditions, address governmental-, institutional- and enterprise-level actions, and extend over three to five years.

24. National programmes must incorporate a vision of the country concerned with technology as a determinant of competitiveness. This would include: (a) technology upgrading in the context of a comprehensive understanding of manufacturing technology, design, distribution, organizational factors and managerial approaches; (b) technology management; and (c) innovation as the engine of competitiveness, including entrepreneurship development, strategic alliances and technology acquisition. The point of departure would be to address the needs of enterprises and to promote interaction between them.

25. Technological skills, upgrading and innovativeness at the enterprise level will determine the competitivity of new products, processes and organizational structures. A shift to flexible manufacturing and the use of modern organizational and management techniques will be crucial also for developing countries and economies in transition. In an increasingly competitive environment, they must develop a new technological culture that integrates specialized training programmes, new technologies, product and process innovation and that focuses on the requirements of export markets. Environmental and energy efficiency issues should be an important element of such technological strategies.

V. ENVIRONMENTAL CHALLENGES

26. The Forum considered that the emergence of stricter environmental requirements could pose a threat to the competitive position of certain resource-intensive and pollution-intensive enterprises. Some enterprises and sectors are in a better position to cope. For others, particularly SMEs, even marginal increases in their costs could be fatal. This need not, however, be the case if preventive measures are adopted by industry early on. If the policy thrust is on curative measures, strict environmental norms and legislation will adversely affect the competitive position of an enterprise. If, on the other hand, government and corporate policies are geared towards preventive measures, competitivity will be strengthened. At the policy level, there is a need in the coming years to introduce economic incentive structures to complement traditional command control measures. At the company level, wider application of cleaner

production techniques and use of environmental management systems are essential tools for meeting environmental protection challenges, for ensuring ongoing compliance with national and international requirements and for continually improving environmental performance. Technical assistance and services for the application of cleaner production techniques will be essential for small-scale industries that are constrained both by a lack of information on, and awareness of, the economic and environmental pay-offs of cleaner production as well as by a lack of easy access to such technologies and related financing.

27. Developing-country exporters perceive the emergence of non-tariff and market barriers such as eco-labelling as threats to their competitiveness and export earnings. Many countries lack pertinent information and the infrastructure (certification and accreditation bodies) essential to qualify for many eco-labelling schemes. Their firms have limited access to cleaner technologies and may thus incur high compliance costs in meeting eco-labelling requirements. The growing use of process criteria for awarding eco-labels is likely to accentuate this problem. A concerted effort is needed to meet the problems that may be posed by ISO 14000 environmental standards. It is also necessary to ensure closer cooperation between Governments and the international community with respect to the mutual recognition of international standards, certification, equivalency and transparency, besides technical assistance to ensure that eco-labelling does not become a significant barrier to trade.

28. There is an urgent need to establish certification centres and accreditation bodies in exporting countries to provide easy and inexpensive access to internationally recognized certification schemes based on mutual recognition. The centres, which may be set up with private participation, can be an important focus for multilateral assistance. UNIDO should be able to play an important role at the international level to support such requirements through "normative" institutional support.

VI. EMPLOYMENT AND SOCIAL ASPECTS OF INDUSTRIALIZATION

29. As emphasized by UNIDO at the World Summit for Social Development in 1995, economic development and more specifically industrial expansion and diversification are a necessary, albeit not sufficient, condition for social development. Social development is hardly possible without industrial development. The creation of new employment opportunities must continue to have the highest priority in the growth programmes of most developing countries. The growth of manufacturing industry, especially at the level of SMEs, is crucial to the generation of employment, however, the environment will be increasingly competitive. Technology and the commensurate human resource development will play an important role. Strategies to exploit the benefits of industrialization in this way must seek both efficiency and equity. Nevertheless, to reduce poverty effectively, such strategies must be accompanied by measures in other areas such as education, health care, social services and family planning.

30. At the same time, diversification and restructuring of industry in order to meet changing market demands are inevitable. Those sectors must be identified which are likely to be significant in the future and the associated training required to equip workers and managers with new skills and attitudes thus creating an industrial environment that can respond rapidly to changing opportunities. Where possible, social safety nets should be created in conjunction with policies for restructuring industry.

31. Policies will need to be country-specific, not following any unique pattern. While export orientation proved to be an excellent way of leading the growth that took root in some countries of South-East and South Asia, networks of small and micro-enterprises initially geared to domestic consumption may be better for sub-Saharan Africa, the Caribbean and the Pacific. In countries with a large population, such as China, India and Indonesia, both approaches may be necessary. Where such a twin-track strategy is appropriate, it should be welded into an integrated policy framework.

32. Micro-enterprises are especially important and need comprehensive support and assistance. The aim of policy, however, must be to create employment and to enable such enterprises to compete on an equal footing without being unduly dependent on subsidies. Such support should therefore be selective and be valid for a limited time period only. Specific programmes offering information, technology support, access to credit and market identification are required for micro-enterprises operated by disadvantaged groups, especially women.

33. At the broad policy level, industrial policies should counteract a tendency for income inequality to increase in the initial stage of industrialization, and for certain regions to benefit preferentially, as industry grows. They should also resist any bias towards capital-intensive solutions, which are inappropriate in countries short of capital. Counter-measures include stronger equity provisions, strong promotion of small and micro-enterprises, rural industries and regional industrial development programmes where employment needs are the greatest and conditions exist for sustainable industrialization.

VII. CHANGING ROLE OF GOVERNMENTS

34. With increased market orientation, and the globalization and liberalization of trade and investment, the role and functions of many developing country Governments are undergoing considerable change. In several ways, Government has to play a reduced role in ownership and levels of intervention in industry. Nevertheless, the Forum considered that Governments need to ensure their role and functions in industrial restructuring and development as a complement to market mechanisms. The precise role will vary from country to country but, in general, the prevalence of market failures will mean that the Government may need to provide institutional support for industry in terms of entrepreneurship development, standards and quality control, technology information, and research and development. At the same time, government action supports the creation and strengthening of national competitive advantages in the industrial sectors. Moreover, it was widely agreed that for the years to come the challenge in many developing countries and economies in transition will be the creation and development of private sector and market-oriented institutions, in particular where at present they are weak or incipient. It is vital that institutions in these fields are fully responsive to the needs of industry and benefit from increasing private sector participation.

35. It will also be necessary for Governments in developing countries to undertake a more challenging and comprehensive role in rural industrial development, in collaboration with the private sector, as well as to ensure environmental and social development objectives that the market and private sector cannot ensure.

36. In view of the special problems facing African countries, the Forum endorsed the recommendations made at the twelfth session of the Conference of African Ministers of Industry (Gaborone, Botswana, June 1995) calling for dynamic action-oriented programmes by Governments for competitive and sustained industrial growth. The manifold constraints facing sub-Saharan African countries mean that major changes in their industrial structure may have to be made largely through programmes to develop SMEs. The policy objective should be to create a new class of entrepreneurs and a skilled labour force, and to develop the technological capabilities to manufacture non-traditional products in new areas where local enterprises can achieve a comparative advantage. Governments will of necessity have to take the lead, in conjunction with the private sector, and where appropriate in consultation with international organizations and donor agencies.

VIII. INTERNATIONAL COOPERATION FOR INDUSTRY

37. The prospective competitive structure of global industry highlighted in the Forum will necessitate major changes in the pattern of international industrial cooperation, particularly in the role of UNIDO. Increasing privatization, globalization and liberalization of trade and investment will add to the complexities of global industrialization, which will require increased specialized assistance on the part of the Organization for developing countries and transition economies. The Forum considered that such assistance should be more sharply focused on enhancing private sector participation, market orientation, competitiveness, industrial partnership and interdependence in selected subsectors.

38. The rapid pace of technological change and its impact on globalization and the emerging pattern of global industry underline the need for periodical assessments of key issues and trends in growth. The Forum considered that such assessments must be undertaken by UNIDO as part of its role as an international forum for industrial development. This role should encompass identifying and resolving common problems, exchanging experience on alternative policies and strategies, developing appropriate measures such as benchmarks of industrial progress and activities, and strengthening measures to promote enterprise-level linkages, partnerships and strategic business alliances. UNIDO's normative support function will be important for the development of international standards and norms.

39. The Forum considered a second major role of UNIDO to be the provision of specialized services to promote and sustain industrial growth in developing countries and economies in transition. These services should extend from policy advice to technology management and transfer, development of institutional capability in standards and certification, promotion of industrial partnerships, alliances and linkages, development of human resources and support for compliance with international conventions and standards.

40. Noting the ongoing reform process in UNIDO, including the five development objectives and seven major programmatic themes, the Forum considered that the Organization will have an increasingly vital role to play in the process of privatization and enhancing the performance of the private sector. Its assistance should strengthen market forces and private enterprise, and improve the efficiency of markets through dissemination of information, diffusion of technology, upgrading of

skills, enhancement of competitiveness, twinning of potential partners, promotion of SMEs, support for rural industrialization and promotion of investment in industry. The Forum considered that UNIDO has significant comparative advantages in developing the related institutional support systems and industry-related services.

41. The Forum was concerned that while the demand for UNIDO services is substantial, its resources are becoming more limited. Additional funds must be generated, and new mechanisms for the mobilization of financial resources including from the private sector will need to be promoted. Although an intergovernmental organization, UNIDO will need to work more closely with the private sector, including transnational corporations, to promote industrialization in developing countries. Increased globalization implies both cooperation and competition with the private sector, keeping in mind the developmental role of UNIDO.

42. The Forum supported the priority that UNIDO is according to Africa in its programmes and services and underlined the importance of South-South cooperation in the context of the increasing success of some developing countries. UNIDO services are needed by African countries and other least developed countries for restructuring their economies, institution-building, regional and subregional cooperation, private sector development and industrial restructuring and rehabilitation.

43. The Forum agreed that new initiatives will be required. Among them could be the re-establishment of a special advisory group of Government officials, industrialists, academics and consumer organizations to advise the Director-General, and the establishment of business/industry councils in various sectors. National committees in developing countries could also make a useful contribution to the work of the Organization, along with the appointment of "ambassadors" for industry in various fields.

44. The Forum considered it essential for UNIDO, which is facing considerable financial uncertainty, to ensure that its services are more sharply focused than ever and that its functions and core expertise are clearly defined. It was noted that endeavours in this direction are currently being undertaken and will be continued with streamlined procedures, decentralized decision-making and a lean organizational structure as major features.